

**MINUTES
of the
SECOND MEETING OF THE 2014 INTERIM
of the
MORTGAGE FINANCE AUTHORITY ACT
OVERSIGHT COMMITTEE**

**July 3, 2014
Mortgage Finance Authority Office
344 Fourth St. SW
Albuquerque, New Mexico**

The second meeting of the Mortgage Finance Authority (MFA) Act Oversight Committee of the 2014 interim was called to order by Senator Nancy Rodriguez, chair, at 10:08 a.m. on July 3, 2014 at the office of the MFA in Albuquerque, New Mexico.

Present

Sen. Nancy Rodriguez, Chair
Rep. Ernest H. Chavez, Vice Chair
Rep. Thomas A. Anderson
Rep. Alonzo Baldonado
Sen. Lee S. Cotter
Rep. Roberto "Bobby" J. Gonzales
Sen. Cisco McSorley

Absent

Sen. Stuart Ingle

Advisory Members

Rep. James Roger Madalena
Sen. Richard C. Martinez
Sen. Bill B. O'Neill
Sen. Gerald Ortiz y Pino
Sen. Michael Padilla
Sen. Sander Rue

Rep. Nathan "Nate" Cote
Rep. George Dodge, Jr.
Rep. Sandra D. Jeff

Guest Legislator

Rep. Dennis J. Roch

Staff

Renée Gregorio, Senior Researcher, Legislative Council Service (LCS)
Sharon Ball, Senior Researcher, LCS

Guests

The guest list is in the meeting file.

Handouts

Copies of all handouts and written testimony are in the meeting file.

Thursday, July 3

Call to Order

Senator Rodriguez welcomed members of the committee, staff and guests to the meeting. She then recognized Jay Czar, executive director, MFA, who advised members that the meeting was being video webcast and reminded members to keep sidebar conversations to a minimum to avoid noise interference with the webcast.

Adoption of June 6 Meeting Minutes

Without objection, on a motion by Representative Gonzales, seconded by Senator McSorley, the minutes of the June 6, 2014 meeting minutes were approved.

Welcome

Mr. Czar thanked Representative Gonzales for getting New Mexico Legislative Council approval for committee members to attend the MFA 2014 Summit on August 20-22 at the Albuquerque Convention Center. He reminded members that this biennial meeting provides a chance for realtors, lenders, developers, managers, financiers, maintenance experts, affordable housing experts and other interested persons to have unlimited access to the people who develop, construct, sell and manage single-family housing in New Mexico. He also noted that Senator Padilla's home foreclosure task force is accomplishing good work. Committee members requested that the MFA Act Oversight Committee be kept apprised of the work of the home foreclosure task force, and Senator Padilla said he would be happy to present monthly updates on the task force's work as the interim progresses.

Mr. Czar said that MFA staff is currently working hard on the agency's budget and the agency's new three-year strategic plan. He noted that the MFA operates on the federal fiscal year, which goes from October 1 to September 30 of the following year. He reported that the MFA board and staff will be meeting in a two-day retreat on July 23 and 24. He said that he expects that the MFA will report to the Legislative Finance Committee (LFC) in September or October. He noted that the MFA has several opportunities to explain its legislative priorities, including reporting at the LFC meeting in September and other legislative outreach activities. In terms of outreach to the executive branch of government, Mr. Czar said that MFA staff and board members will initiate outreach activities to the Department of Finance and Administration (DFA) and to staff at the Office of the Governor.

MFA 2015 Legislative Agenda: Introduction

Joseph Montoya, deputy director of programs, MFA, directed committee members' attention to the information behind Tab 1 in the committee notebooks, which includes the following proposals:

1. ***Regional Housing Oversight:*** The MFA is requesting a recurring appropriation of \$250,000 to support the statutory mandate for oversight of the state's regional housing authorities. In 2006, the MFA was mandated to restructure and oversee the regional housing authorities, and, since that time, the agency has received no financial support

from the state. If a recurring appropriation to the MFA is not approved, the MFA is requesting that oversight of the regional housing authorities be transferred to the DFA.

2. ***Affordable Housing Oversight:*** The MFA is requesting \$200,000 in a recurring appropriation to support the statutory mandate to oversee implementation of the Affordable Housing Act, which permits state and local governments to contribute public funds, buildings and other resources for affordable housing. The MFA is requesting the funding to provide technical assistance to local communities for development and implementation of affordable housing plans and ordinances. If recurring funding is not approved, the MFA is requesting that oversight of the Affordable Housing Act be transferred to the DFA.
3. ***New Mexico Housing Trust Fund:*** Created by the legislature in 2005, the New Mexico Housing Trust Fund began with an initial appropriation of \$10 million and has received additional appropriations of \$8.7 million over the years since its creation. Mr. Montoya explained that an appropriation to the New Mexico Housing Trust Fund allows the MFA to leverage those dollars at a current rate of 14 to one. The MFA is requesting a \$5 million appropriation, which could be leveraged to \$70 million to build more than 500 quality affordable homes for low-income New Mexicans.
4. ***Low-Income Residential Energy Conservation:*** The MFA is requesting a \$1 million appropriation for the NM Energy Smart Program, which weatherizes the homes of approximately 1,000 low-income families each year. State funding is leveraged on a five-to-one basis with two federal programs. An estimated 85,000 low-income New Mexicans are eligible for weatherization services, and a \$1 million appropriation will provide weatherization for approximately 200 additional homes statewide, creating jobs and saving low-income families hundreds of dollars on energy bills each year.
5. ***Emergency Home Repair:*** The MFA is requesting a \$2 million appropriation to enable the MFA to fund emergency home repairs for low-income households throughout the state. Measures include health and safety repairs; repairs to the dwelling's envelope, interior walls and roof; and accessibility modifications for disabled persons. When possible, funds will be leveraged with other programs to address major rehabilitation or weatherization needs. Mr. Montoya noted that the MFA has requested appropriations for emergency home repair in 2007, 2008 and 2009.
6. ***Affordable Housing Act Amendment:*** The Affordable Housing Act allows state and local governments to contribute public funds, buildings and other resources for affordable housing. In the 10 years since the measure was signed into law, two issues have emerged that the proposed amendment would resolve: (1) an exemption from the long-term affordability requirement so that foreclosed properties can be resold; and (2) the provision of a penalty so that the act can be enforced.
7. ***Affordable Housing Tax Credit Act Amendment:*** Enacted in 2005, the intent of the Affordable Housing Tax Credit Act was to encourage investment in affordable housing by issuing tax credits in exchange for donations of land, buildings, materials, services or cash. The proposed amendment would clarify that local government

contributions are not eligible for state tax credits, a provision that will preserve state tax credits for intended recipients — individuals, private entities and nonprofits.

After an extensive discussion of the proposed legislative issues and additional issues, committee members requested staff to research several other topics for possible MFA legislative endorsement, including:

- housing incentives and support for New Mexicans in the "millennial" population category — those born between roughly the early 1980s and 2000;
- halfway houses for existing prisoners rather than spending millions on prison renovations; and
- foreclosure prevention and responses.

Regional Housing Authorities

Mr. Montoya requested that the chair allow him to deviate somewhat from the order on the agenda and, instead, begin with an update on the Northern Regional Housing Authority (NRHA). With the chair's permission, he introduced Leandro Cordova, chief financial officer, Taos County, and Santiago Chavez, chair, NRHA, to provide an update on efforts to reestablish the NRHA. Mr. Montoya also introduced Rose Baca-Quesada, community development senior lead, MFA, to provide information on the eastern and western housing authorities.

By way of background, Mr. Montoya directed committee members' attention to information behind Tab 2 in the meeting notebooks and provided the committee with background on New Mexico's regional housing authorities; handouts depicting regional housing authority regions; and a matrix summarizing information about all three housing authorities.

Mr. Montoya explained that housing authorities that encouraged regionalization became prevalent in the United States in the 1960s and 1970s. New Mexico's regional housing authority laws date back to the mid-1970s, when seven regional housing authorities were established to serve the state's rural areas. He explained that, as federal funding dried up in the subsequent decades, New Mexico's seven regional housing authorities relied on bonding capacity and other revenue streams to stay solvent.

In the wake of a state-commissioned assessment to examine the causes of and solutions to alleged corruption among regional housing authorities, Mr. Montoya said, the state's Regional Housing Authority Law (Sections 11-3A-1 through 11-3A-31 NMSA 1978) was amended in 2008 and 2009 to: (1) consolidate the state's regional housing authorities from seven to three; (2) establish regional housing authority oversight by the MFA; (3) require minimum qualifications for regional housing authority commissioners and have commissioners appointed by the governor; and (4) clarify the way in which public and regional housing authorities should operate when their respective service areas overlap. As currently written, the Regional Housing Authority Law does not allow regional housing authorities to provide services within municipalities or counties that have established public housing authorities (PHAs) unless the local government passes a resolution allowing them to do so. Mr. Montoya also noted that a

local government can limit a regional housing authority to avoid duplication of services already offered by the PHA. Today, regional housing authorities continue to operate side by side with PHAs established by counties and municipalities under the provisions of the Municipal Housing Law (Sections 3-45-1 through 3-45-25 NMSA 1978).

Mr. Cordova explained that Taos County, recognizing the need, has begun the process of consolidation of PHAs in the northern region, which, in addition to Taos County, includes Rio Arriba, San Juan and San Miguel counties; and the municipalities of Chama, Cimarron, Cuba, Gallup, Grants, Las Vegas, Maxwell, Pecos, Raton, Springer and Wagon Mound. He noted that, of the 14 PHAs in the northern region, 10 are considered by the federal Department of Housing and Urban Development (HUD) to be troubled or substandard. Mr. Cordova said that, working in partnership with the MFA, the volunteer board has issued a request for proposals to solicit professionals in the housing business. He said that an organization, Smart, Inc., from Louisiana offered the proposals that was selected to start the regionalization process to achieve economies and efficiencies of scale. He said that Smart, Inc., has been helping to develop staff and programs. He acknowledged that the northern region has been "in trouble" for a few years but is now "cleaning things up" at the county level to make the transition as smooth as possible.

Mr. Chavez explained that he currently serves as full-time director of finance for the New Mexico Association of Counties (NMAC). He said that the NMAC has agreed to allow him to volunteer with the northern board while working to turn the NRHA around. In response to a committee member's question, Mr. Chavez said that Smart, Inc., services are paid with available federal funds through this transition process.

In response to committee members' discussion and questions, Mr. Montoya noted that, of the 31 PHAs in New Mexico, many are categorized as "troubled" or having "substandard management" by the HUD. He said that all of them either manage low-rent units or issue Section 8 housing vouchers, or both. He said that none provide a full spectrum of housing services, such as rehabilitation and weatherization services, which are vital to rural communities, and all could clearly benefit from significant capacity building to better serve their communities.

After passage of amendments to the Regional Housing Authority Law in 2008 and 2009, the governor appointed boards of directors for all three regional housing authorities: eastern, western and northern. Directing committee members' attention to the handout, "New Regional Housing Authority Regions" map, Mr. Montoya pointed out that urban areas in Santa Fe, Bernalillo and Doña Ana counties have no regional housing authority representation. He also directed committee members' attention to the "Public Housing Authorities in New Mexico by Region" handout and noted the listing of PHAs by region. In response to a committee member's question, Mr. Montoya noted that Taos County is in the process of consolidation and has 448 Section 8 housing units and 170 low-rent units. He explained that different programs grow differently at different times, and not all programs are slated to be regionalized. He suggested that a PHA should have about 200 housing units available to be successfully regionalized.

Mr. Chavez expressed the hope that, with the help of the contractor, Smart, Inc., the NRHA would be able to revitalize its operations to take advantage of available HUD funding. Mr. Cordova noted that sometimes it takes an outsider to turn around a difficult situation such as the one that the NRHA faced. In response to a committee member's question, Mr. Montoya said that Smart, Inc., has a one-year contract with two one-year renewals possible. He added that some troubled PHAs in the region have indicated that they would like to turn over their vouchers and units to a qualified entity, if it existed. He said that the limited capacity of many PHAs, as verified by the HUD, and rapidly shrinking federal funding indicate that the trend toward regionalization will accelerate. He emphasized the importance of establishing a viable NRHA so that communities in the north will have access to affordable housing services.

Next, Ms. Baca-Quesada provided a brief overview of the work of the Eastern Regional Housing Authority (ERHA). She said that Chris Herbert is the ERHA executive director and that the agency is committed to serving the housing needs of low-to-moderate-income families in Chaves, Curry, De Baca, Eddy, Guadalupe, Harding, Lea, Lincoln, Otero, Quay, Roosevelt and Union counties by using all available resources to provide decent, safe and quality affordable housing. She explained that the authority is overseen by a seven-member board of commissioners appointed by the governor and is operated by three administrators: an executive director, a deputy director and a finance director.

She went on to explain that the ERHA is currently ranked as a "High Performer" by the HUD and that it received an "unqualified" audit opinion on its 2013 audit. She said that the ERHA has achieved "High Performer" status from the HUD, as well as "unqualified" audits, for the past nine years.

Ms. Baca-Quesada reported that one of the ERHA's biggest accomplishments has been the successful merger of the Vaughn Housing Authority's assets into the ERHA public housing portfolio. Before the Vaughn Housing Authority came under the control of the ERHA in 2010, it had been rated as a "troubled authority" for more than five years. The ERHA has also increased the occupancy rate from 50 to 100 percent over the same time period.

Committee members' comments and discussion centered on the ERHA's challenges and concerns. A major concern is the agency's lack of funding to administer programs appropriately.

Ms. Baca-Quesada provided a brief update on the Western Regional Housing Authority (WRHA). She noted that the WRHA includes Grant, Catron, Hidalgo, Luna, Sierra, Socorro, Valencia and Torrance counties. This agency has an eight-member board of commissioners, appointed by the governor. She noted that the WRHA is also a HUD "High Performer" and has had clean audits for the past 14 years.

Among the agency's challenges and constraints, Ms. Baca-Quesada indicated that the greatest concern is a lack of decent, safe and affordable housing, particularly in highly rural areas such as Hidalgo County and a lack of funding for administration of programs. She explained that

the WRHA has a total of 11 staff between its two offices located in Silver City and Deming. She said that she has not had the resources to hire additional staff since the addition of four counties to the region.

MFA Single-Family Mortgage Products

Mr. Montoya directed committee members' attention to the information behind Tab 3 in the committee notebooks and introduced Erik Nore, director of homeownership, MFA, and Theresa Garcia-Laredo, special projects director, MFA, to provide a presentation on MFA single-family mortgage products. In the interest of saving time, Mr. Nore explained the three factors that make the MFA unique in the service it provides: (1) the MFA provides down payment assistance; (2) the MFA acts as a secondary market to participating mortgage lenders; and (3) the MFA requires pre-purchase homebuyer counseling.

He continued, describing the following MFA single-family mortgage products:

- ***MortgageSaver Program:*** Provides 30-year fixed-rate mortgage loans for first-time homebuyers with three different interest rates and various types of down payment assistance; can be used with Federal Housing Administration (FHA), federal Department of Veterans Affairs, United States Department of Agriculture and conventional loan products and requires a \$500 borrower contribution.
- ***HERO Program:*** Targeted to first-time homebuyers in low- or moderate-income households in which at least one member is a public safety worker, health care worker, educational worker or an active or reserve member of the armed forces; provides a 3.5 percent down payment assistance grant; provides a 30-year fixed-rate FHA-insured mortgage loan.
- ***Mortgage Booster:*** Provides a fixed-rate second mortgage to be used in conjunction with either a MortgageSaver Zero first mortgage; features a 30-year term and a maximum loan amount of \$8,000; and has a 6 percent interest rate.
- ***PaymentSaver:*** For low-income borrowers, provides a down payment assistance loan at 0 percent amortizing second mortgage repayment on sale, transfer or refinancing.
- ***Helping Hand:*** Provides \$8,000 for down payment and closing cost assistance to low-income families in which one family member has a disability; and a 0 percent loan due on sale, transfer or refinancing of the home.
- ***Smart Choice:*** Provides a down payment assistance loan up to \$15,000 used in conjunction with a HUD Section 8 homeownership program for low-income borrowers; and a 0 percent amortizing second mortgage repayable on sale, transfer or refinancing of the home.

Mr. Nore also discussed opportunities to increase lending to millennials, noting that younger buyers make up a large target market. Mr. Nore said that current MFA mortgage products are available to millennials who otherwise qualify. He also noted that MFA staff is researching other housing financing agency marketing initiatives targeted to younger buyers, and this marketing focus will be a part of the MFA 2015-2017 marketing plan.

Mr. Nore pointed out several other issues, including foreclosure trends in the United States and in New Mexico; a Mortgage Bankers Association national delinquency survey for 2014; a Federal Reserve Board May 2014 scorecard showing further signs of recovery; and a Harvard University study, "The State of the Nation's Housing 2014".

Housing Trust Fund Update

Directing committee members' attention to information behind Tab 4 in the committee meeting notebooks, Mr. Montoya reported that, since it was established in 2005 by the legislature, the New Mexico Housing Trust Fund has grown from \$18.2 million in appropriations to nearly \$24 million as a result of interest earned over the years. Through a competitive application process, the MFA has awarded more than \$33 million, including the state's \$18.2 million investment, interest income and loan repayments, to 42 housing projects for nearly 1,800 housing units. He said that these impressive developments have leveraged approximately \$320 million in other funding sources for a 17-to-one return on the state's initial investment — up from 14 to one in the past. Mr. Montoya also expressed concern that the MFA has not yet received its \$500,000 appropriation from the 2012 legislature for the New Mexico Housing Trust Fund. Committee members congratulated the MFA staff for their fine work on behalf of low- to medium-income New Mexicans.

Adjourn

Some committee members expressed concern that the meeting agenda did not allow enough time for discussion of the items near the end of the agenda. Senator Rodriguez suggested the possibility of requesting an extra meeting date from the New Mexico Legislative Council.

There being no further business to come before the committee, the meeting adjourned at 12:28 p.m.